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C O N F I D E N T I A L SECTION 01 OF 04 MEXICO 000351

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STATE FOR A/S SHANNON
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STATE FOR EB/IFD/ODF, NEA/IR BRENDAN HATCHER, IO/T HEATHER
VON BEHREN
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/ARUDMAN
TREASURY FOR IA (ALICE FAIBISHENKO)
TREASURY FOR TFFC (THEO VANLINGEN)
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)
STATE PASS TO EXIM (LADD CONNELL)
NSC FOR DAN FISK, CINDY PENDLETON
DOJ FOR CALDWELL HARRUP

E.O. 12958: DECL: 04/05/2011

TAGS: [KTFN](#) [PGOV](#) [PTER](#) [PINR](#) [MX](#)

SUBJECT: MEXICAN FINANCE SECRETARY DISCUSSES REFORM AGENDA,
LAYS OUT PROPOSALS FOR INCREASED US-MEXICO COOPERATION

REF: A. 07 STATE 4760

[1](#)B. 06 MEXICO 7110

[1](#)C. 06 MEXICO 7054

[1](#)D. 06 MEXICO 6973

Classified By: AMBASSADOR ANTONIO O. GARZA JR. FOR REASONS 1.4 (B,D)

Summary

[1](#)1. (C) Ambassador Garza met with Mexican Finance Secretary Agustin Carstens on January 22, 2007. The Ambassador began the meeting by congratulating Carstens for the Calderon administration's strong start -- highlighting their counterdrug and anticrime efforts. Carstens told the Ambassador that the Mexican government would like to advance fiscal, pension, state, and judicial reforms. Regarding fiscal reform, Under Secretary of Finance Alejandro Werner said the government is currently working to raise the level of consciousness about fiscal reform in the Mexican Congress and more generally, but specific reform measures have not yet been discussed. Carstens said President Calderon is serious about taking on monopolies, but that Mexico needs to navigate carefully this politically charged issue. Carstens requested the following: technical assistance on combating money laundering, greater information sharing and cooperation on money laundering and customs, sharing of information on interest payments from U.S. banks to Mexican citizens, and that we develop a joint strategy to make the North American Development Bank (NADBank) more effective. The Ambassador highlighted the importance of taking on monopolies in the media sector, and raised USG concerns about the legal harassment of General Electric/NBC and Mexico's potential purchase of six Russian fighters. Technical assistance and training topics will be a priority topic for Carstens in his early February meeting with Secretary Paulson. Paragraph 16 has more details in this regard. End Summary.

Participants

¶2. (C) Ambassador Garza was accompanied by DCM, Econ M/C, and Econoff. Carstens was joined by Under Secretary of Finance Alejandro Werner and Director General of the Tax Administration Service (SAT) Jose Maria Zubiria (strictly protect all names in telegram).

Economic Reforms in Early Stage

¶3. (C) Before Carstens' arrival, Werner told the Ambassador that the administration is in the early stages of developing a fiscal reform package. The administration is currently working to raise the level of consciousness about fiscal reform, arguing that first, they must make sure all players (Mexican Congress, etc.) see the need for such a reform and that everyone is on the same page. Currently, they are not discussing specific reform measures. Werner said the administration does not want to "open the door too wide" -- saying that if they cast the net too wide, people will come forward with all kinds of proposals, as fiscal reform encompasses so many things. He noted corporate governance at Pemex as an example. He wants progress in this area, but he does not want to address the issue now.

¶4. (C) Carstens told the Ambassador that the government believes pension, judicial, and state reforms are also very important. Regarding pension reform, Werner said that it is clear what needs to be done, as a pension reform bill was introduced into the Senate about a year ago.

MEXICO 00000351 002 OF 004

Government To Address Monopolies With Caution

¶5. (C) Carstens said that President Calderon is committed to increasing competition in the domestic market, and that there is a sense of urgency within the administration regarding "taking on monopolies." He noted, however, that Calderon has told him they need to pick their battles and carefully consider the timing of battles on this issue. Calderon wants to be prepared so that when the time is right, they will be ready to move. Carstens referred to monopolists as "a powerful enemy," and said that government efforts to make progress can backfire if not done carefully.

¶6. (C) Carstens said that the Federal Competition Commission (CFC) has become more powerful, and that the executive level will continue supporting it. In this context, he said that the energy sector "is on the radar screen," but that some issues will be discussed "as they come up." Carstens noted that Calderon can only be active on so many fronts at one time.

¶7. (C) Ambassador Garza highlighted the importance of taking on monopolies in the media, arguing that without "competition in the dissemination of ideas," two TV companies will dominate the agenda. In this context, the Ambassador raised U.S. concerns about how the General Electric/NBC commercial dispute has been criminalized (Comment: Some Mexican companies have criminalized such commercial disputes in an attempt to consolidate their protected position in Mexico and exclude strong competitors. See Refs B-D. End Comment.) Carstens agreed that media companies dominate the agenda.

Carstens Asks for Greater Cooperation on Customs...

¶8. (C) Carstens said he would like the U.S. and Mexico to align their strategies and increase information sharing on

customs. Noting that he considers customs one of the most important issues, he said the Calderon administration wants to make the border as efficient as possible. Werner said that customs requirements represent a large cost for companies -- noting the importance for Mexico since exports represent 60-70% of GDP.

¶9. (C) Zubiria said the U.S. and Mexico had created a strategic group to discuss customs issues. He said this group helps Mexico because it allows Mexican Customs to work with the U.S., rather than simply react to rules that the U.S. implements. Zubiria said they would like such cooperation go beyond help on a case-by-case basis. He threw out the idea of locating some of their people on the U.S. side of the border.

... Technical Assistance on Money Laundering, etc....

¶10. (C) Carstens told the Ambassador that they "do not like to ask for help," but that Mexico would like technical assistance on money laundering, specifically on systems. Carstens explained how Mexican officials are overwhelmed by the amount of information they have, and need to be able to better organize and process information so they can turn it into useful intelligence. He noted that Mexico is working with the IMF on money laundering, and that they would like to get program going with the U.S. once they get recommendations from the IMF. Meeting participants also talked about technical assistance and/or training related to tax administration and customs. Treasury Secretary Paulson should be ready to discuss the range of training programs that the U.S. might offer in these areas when he meets Carstens in early February.

MEXICO 00000351 003 OF 004

... Information Sharing on Interest Payments...

¶11. (C) Carstens raised a longstanding Mexican complaint: The U.S. will not provide Mexico information on interest payments from U.S. banks to Mexican citizens. The U.S. has agreements to share such information with 16-17 countries, but not with Mexico. As he did with Treasury Assistant Secretary Clay Lowery on January 12, Carstens requested that

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the U.S. share this information. Zubiria noted that this would help Mexico understand the evolution of individuals' wealth and help with immigration and anti-money laundering. Carstens said he knows the issue is politically charged in the U.S., particularly in Florida.

... And for a Joint Strategy on NADBank

¶12. (C) Carstens told the Ambassador that NADBank "was created so it would not work." He laid out two approaches to dealing with NADBank: 1.) unwind the whole institution and 2.) make a valiant effort to improve the organization. He said the time to address this issue is now, and that he had discussed NADBank with A/S Lowery. Carstens believes NADBank can be addressed in a positive way, and said he is more than willing to give Mexico's \$50 million contribution to the institution. He emphasized, however, that the Mexican Congress will never appropriate the funds if he cannot "sell" the idea to it. He does not want the U.S. to think (or to tell him) that Mexico is not making an effort to improve NADBank unless it appropriates the \$50 million. He said that he is willing to work on this, but wants a joint strategy. If he sees results, the governors in the northern part of the country will push the issue, and it will go through.

Export Credits to Iran

¶13. (C) Per request in Ref A, Econ M/C urged Carstens to have Mexico halt all export credits to Iran, which has yet to comply with UN Security Council Resolution 1737 regarding its nuclear program. Carstens responded by saying "that's easy," implying his agreement. Carstens and Werner did not know if Mexico's export credit agency, Bancomext, has provided export credits to Iran in the past, but Werner said he would look into it.

Russian Fighters

¶14. (C) The Ambassador brought up and the DCM continued a brief discussion about Mexico's potential purchase of six Russian fighters. They said that the U.S. had a similar product that we would like Mexico to consider, and noted that there are more effective ways for Mexico to protect its oil platforms than Russian fighters. The DCM asked Carstens to stay engaged on this issue. Carstens appeared not be aware of the issue, but implied Hacienda would look into it.

Atmospherics

¶15. (C) Carstens, Werner, and Zubiria were open and engaging throughout this introductory call. The atmosphere was collegial, and the meeting was highly substantive. All three Mexican participants knew their brief extremely well. Carstens did most of the talking for the Mexicans. He deferred to Zubiria and Werner when he had questions and occasionally to ask if they had something to add. The interaction between Carstens, Zubiria, and Werner was relaxed

MEXICO 00000351 004 OF 004

and respectful.

Comment

¶16. (C) The USG needs to develop a comprehensive approach to Mexico's requests for technical assistance on money laundering and for greater information sharing and training related to tax administration and customs. The Mexicans are looking to professionalize their ability to analyze information and to make this information more useful to GOM policymakers and investigators. Werner told Econ M/C on January 23 that he will hold internal meetings next week to bring together and prioritize the Finance Secretariat's assistance requests related to law enforcement, money laundering, smuggling, tax administration, and related topics. Werner's goal is to give us a "wish list" in advance of Carstens' early February meeting with Treasury Secretary Paulson. This would allow the USG to better understand the Secretariat's greatest concerns.

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¶17. (C) Carstens' view that the NADBank is not working does not appear to be shared by the Environment Secretariat (SEMARNAT). SRE has mixed positions on the issue. It is safe to say that NADBank's future is an active GOM debate topic. That said, few doubt that NADBank needs Mexico's \$50 million contribution. The U.S. Congress has already appropriated the matching U.S. contribution.

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